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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY  
**UNITED STATES GOVERNMENT**  
**FEDERAL COMMUNICATIONS COMMISSION**

MEMORANDUM

**DATE:** June 24, 1999

**TO:** Reference Information Center

**FROM:** Lynne Milne, Attorney, CCB Competitive Pricing Division *QZm*

**SUBJECT:** CC Docket No. 96-128

The original and one copy of a denied motion are enclosed for your inclusion in CC Docket No. 96-128. Please note the "denied" stamp on the first page, dated June 24, 1999. If you have any questions about this matter, please call me at 418-7055. Thank you for your assistance.

cc: Kris Monteith  
Jon Stover  
Renee Terry

Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

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MAY 19 1999

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

In the Matter of )  
)  
)

Implementation of the Pay Telephone )  
Reclassification and Compensation )  
Provisions of the Telecommunications )  
Act of 1996 )  
)

CC Docket No. 96-128

**Received**

MAY 21 1999

Common Carrier Bureau  
Network Service Division  
Office of the Chief

MOTION OF  
THE COLORADO PAYPHONE ASSOCIATION  
FOR LEAVE TO SUPPLEMENT  
PETITION FOR PARTIAL RECONSIDERATION

**Received**

JUN 07 1999

Common Carrier Bureau  
Network Service Division  
Office of the Chief

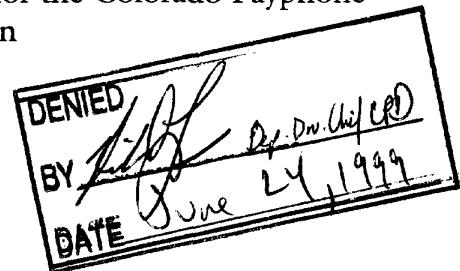
Special Counsel:

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Attorney for the Colorado Payphone  
Association

Dated: May 19, 1999





understates the cost of capital for a typical payphone provider. Petition, pp. 13-15. As support for its rate of return argument, CPA included a brief statement by two economic consultants stating their view that such a return is too low. Declaration of John Haring and Jeffrey H. Rohlf's (the "Declaration"). In their Declaration, Haring and Rohlf's concluded that compensation based on an 11.25% return likely will restrict the flow of funds into the payphone industry and thereby limit the deployment of equipment for the provision of payphone services.

Because of time constraints, the Declaration did not contain detailed methods for calculating the payphone service providers' cost of capital. In the attached supplement, (the "Haring/Rohlf's Supplement"), Haring and Rohlf's have demonstrated that an 11.25% return would not cover the cost of capital investment in payphones and would lead to an inefficiently low supply of payphone equipment. The supplement also offers alternative methods for calculating payphones providers' cost of capital and provides a detailed analysis of those alternatives.

The impact of using the returns recommended in the Haring/Rohlf's Supplement is significant. Assuming no other changes in the calculations, the per-call compensation rate would increase by between 1.8 and 4.5 cents above the Commission's 24 cent rate. An accurate estimate of payphone service providers' cost of capital is thus critically important to achieving the Commission's objectives to promote payphone competition and the widespread availability of payphone services. 47 U.S.C. § 276(b).

Moreover, the Commission has made clear that it wants to set a payphone compensation rate that will remain in effect at least through January 31, 2001. *Third R&O*, ¶ 18. This makes it particularly important that the Commission take

the opportunity now to consider the data necessary to establish a rate that will not have to be revisited within the next year and a half.

Given the importance of getting payphone compensation right, the Commission should accept and peruse the analysis set forth in the Haring/Rohlf's Supplement. That way it can properly reconsider the \$.24 rate it established in the *Third R&O*. Absent such reconsideration, the Congressionally mandated objectives of fair compensation for payphone providers, promotion of payphone competition, and the continued widespread availability of payphones will not be attained. 47 U.S.C. § 276(b).

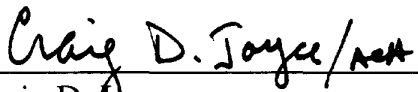
Finally, the Commission has not yet placed CPA's Petition on public notice. As such, interested parties will not be unduly prejudiced by the lateness of this filing.

For the foregoing reasons, the Commission should accept the Haring/Rohlf's Supplement.

Respectfully submitted,

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Attorney for the Colorado Payphone  
Association

Dated: May 19, 1999

## **COST-OF-CAPITAL FOR PAYPHONE ENTERPRISES**

**MAY 14, 1999**

### **Introduction**

Our names are John Haring and Jeffrey H. Rohlfs. We are principals in Strategic Policy Research.<sup>1</sup> We have filed several previous expert reports in the Commission's various payphone proceedings on behalf of BellSouth and the APCC, respectively. On April 21, 1999 we filed a brief statement that questioned the Commission's use of an 11.25 percent rate of return for purposes of reckoning an economically appropriate rate for per-call compensation to payphone providers.<sup>2</sup> As we briefly explained in that filing, payphone suppliers are not regulated public utilities which face only limited competition and are afforded by regulation a reasonable opportunity to recover their costs, including a fair return on invested capital.

On the contrary, the payphone industry is a risky competitive business. It consists of a large number of firms, many of which are quite small and, by no credible stretch, economically comparable to large public utility companies. Payphone businesses do not operate in protected market environments and are afforded no regulatory guarantees of a

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<sup>1</sup> Dr. Haring formerly served as Chief Economist of the FCC and as Chief of the Commission's Office of Plans and Policy. Dr. Rohlfs was formerly Head of Economic Modeling Research at Bell Laboratories.

<sup>2</sup> See *Declaration of John Haring and Jeffrey H. Rohlfs*, filed on behalf of the APCC.

“reasonable opportunity” to recover their costs. Thus, in our previously stated view, “utility-type” returns are unlikely to induce sufficient capital funding for this type of competitively risky venture. To the extent “utility-type” returns inform the Commission’s prescription of appropriate per-call payphone compensation, such compensation will likely prove inadequate to induce economically-efficient provision of payphone service and will likely shrink the resources deployed to provide payphone service.

In this filing, we examine some empirical evidence regarding the level of an economically appropriate return for use in calculating per-call payphone compensation. Our analysis suggests that, given the magnitude of the risks that inhere in the payphone business, a *lower* bound on the economically appropriate return would be in the range of 14.4 to 20.09 percent per year. In reaching this conclusion, we have relied upon tools of financial analysis the Commission has utilized in its previous (as well as its on-going) rate-of-return prescription proceedings. Our basic tack is to update and adjust, for the higher levels of risk that prevail in the payphone industry, the type of return the Commission has previously found to be appropriate for setting just and reasonable rates for the interstate services of local exchange carriers. This task is complex because payphone providers are numerous and heterogeneous, and data are limited.

## **Background**

To ensure “just and reasonable” rates for the interstate communications services it regulates, the Commission frequently prescribes an authorized rate of return to link regulated rates to regulated carriers’ actual costs of capital and equity and their regulated rate bases (*viz.*, invested capital). The authorized rate of return is defined in terms of its ability to elicit “sufficient capital investment” and measured by regulated firms’ weighted-average cost of capital. The weighted-average cost of capital is specified in the Commission’s rules as the sum of the cost of debt, the cost of preferred stock, and the cost of equity, each weighted by its proportion in the capital structure of the regulated telephone companies.

In assessing the reasonability of returns, the Commission has not only examined telephone companies’ discounted cash flows to measure their equity costs, but also

looked to the experience of broadly similarly situated companies in other lines of business (*e.g.*, the S&P 400 and the large electric utilities). As noted above, there is little analytical basis for expecting comparable returns for disparate types of enterprises (*i.e.*, large, often regulated business corporations versus unregulated, often quite small competitive payphone businesses) that operate in and confront much different market environments.

Indeed, in the past the Commission has declined to use "the average or median cost of capital for the S&P 400 or 500 as the interstate access return on equity." It has stated, "We simply do not believe that interstate access, *which is a regulated monopoly business*, is as risky as the average *publicly-traded* firm."<sup>3</sup> One can apply the same reasoning in reverse with regard to the competitive payphone industry. That is, one simply cannot reasonably believe that the average publicly traded firm is as risky as payphone enterprises, which are generally much smaller and are often too risky to be publicly traded at all. Thus, while it may be proper to adjust the returns of the S&P 400 or 500 downward to account for the lower risk of regulated public utilities, it is equally proper to adjust the S&P returns *upward* to account for the greater risk of small, unregulated payphone enterprises. The average cost of capital of the S&P 500 supplies a conservative lower bound for the cost of capital of payphone enterprises.

The view that the activity of handling dial-around and 800 calls is less risky than the general payphone business is also unsupportable. The dominant risk in the payphone business is that the phones (of a particular enterprise) will not be sufficiently used to cover their large fixed costs. In particular, callers may use the payphones of competitors or use other alternatives; *e.g.*, wireless telephones. We know of no reason why this risk should be lower for dial-around and 800 calls than for other calls. Indeed, the risk may be greater to the extent that end users who make dial-around and 800 calls are business persons who have wireless alternatives. In any event, the risk of insufficient demand to

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<sup>3</sup> See Report and Order, *In the Matter of Represcribing the Authorized Rate of Return for Interstate Services of Local Exchange Carriers*, CC Docket No. 89-624 (September 19, 1990), at ¶ 162 (emphasis added). Obviously the rationale for a lower prescribed rate of return based on the presence of monopoly is wholly inapplicable in a vigorously competitive market.



cover fixed costs is obviously much more severe for payphones in general, and dial-around and 800 calls in particular, than for regulated public utilities.

## **Methods for Calculating Cost of Capital**

The Commission has historically relied upon a variety of different types of showings for purposes of assessing the cost of equity including notably: discounted cash flow (DCF) and the analysis of risk premiums. Under the DCF methodology, a firm's cost of equity is measured as the sum of the firm's annual dividend divided by the price of a share of its common stock plus the long-term growth rate in dividends. Under the risk-premium methodology, a firm's cost of equity is measured as the sum of a risk-free rate of return and a risk premium.

It is impractical to apply the DCF approach to the payphone industry because, unlike the regulated telephone and electric utilities, payphone companies do not pay regular dividends and do not have a sufficient historical base from which to project a rate of dividend growth.

We note that in the past the Commission has itself, for purposes of cost-of-equity benchmark analysis, screened the S&P 400 and electric utilities groups *to exclude* some companies that did not pay dividends. This approach may be reasonable for regulated firms, which typically pay large dividends and are therefore comparable in that respect to industrial firms that pay dividends. However, firms that pay sizable dividends are generally not highly risky. Otherwise, they could not commit to their stockholders to make payments from earnings that (for a riskier firm) might not materialize. Any financial analysis that excludes firms because they do not pay dividends would lead to downwardly biased estimates of the cost of capital.

Indeed, many payphone enterprises do not even have positive earnings. The market capitalization of such firms (if positive) is based entirely on future prospects. No DCF analysis, based on an established history of steady growth in dividends, could conceivably provide an adequate measure of the risks of such firms and the returns that they must pay to investors to attract equity capital.

An analysis of risk premia supplies a more manageable approach, and we utilize it to develop suitable benchmarks for evaluating required returns in the payphone business.

## Analysis

The cost of capital depends on the costs of debt and equity. For competitive payphone enterprises, the costs of debt and equity are likely to be substantially higher than those of regulated public utilities.

In the Commission's on-going rate-of-return represcription proceeding, the ILEC Trade Associations have filed an expert report by Dr. Randall S. Billingsly, CFA, which contains two estimates of expected returns for the overall market. Dr. Billingsly measures expected returns on equity for the S&P 500 of 16.99 percent, using S&P's IBES database, and 16.74 percent, using Zacks growth rate calculation.<sup>4</sup> Billingsly also estimates that the ILECs' forward-looking cost of debt is 6.35 percent per year.<sup>5</sup> He estimates the "risk-free" rate to be 5.86 percent per year.<sup>6</sup>

We have additionally compiled data on recent debt offerings of companies that have Moody's bond ratings of B1 or lower. The debt of these companies is, of course, more risky than ILECs', which generally have high A ratings of various degrees. Even these lower-grade bonds are, however, probably less risky than the debt of the typical payphone enterprise, which is too small and too risky to be evaluated by Moody's. These offerings are displayed in Table 1 attached to this report. As the table shows, the weighted-average return to maturity on these bonds was 12.07 percent per year.

Alternatively, we can examine only those bonds with C ratings. Those bonds have an average rate of return of 15.19 percent per year, as shown in Table 2, attached. Even these bonds are probably not as risky as the debt of the typical payphone enterprise, which is too small and too risky to be rated by Moody's.

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<sup>4</sup> See *Comments of Dr. Randall S. Billingsly, CFA*, Joint Responsive case filing of the ILEC Trade Associations, *In the Matter of Prescribing the Authorized Unitary Rate of Return for Interstate Services of Local Exchange Carriers*, CC Docket No. 98-166 (March 16, 1999), at 27.

<sup>5</sup> *Id.*, at 32.

<sup>6</sup> *Id.*, at Billingsly Exhibit No. RSB-6, "Calculation of U.S. Treasury Bond Futures' Implied Interest Rate."

We use the above numbers to calculate four lower-bound estimates of the cost of capital for payphone companies.

### **Method 1.1**

Let us assume that the debt of payphone companies is as risky as that of the average bond having a rating of B1 or lower. Let us also assume that the equity of payphone companies is equally as risky as that of the S&P 500. Both of these assumptions substantially understate the risks of payphone companies. If we further assume a debt-equity ratio of 1 (which is not atypical for small capitalization companies whose securities are listed, but may be high for companies that are too small and risky to be listed), the cost of capital is  $(0.5) (12.07 \text{ percent per year}) + (0.5) (16.74 \text{ to } 16.99 \text{ percent per year}) = 14.4 \text{ to } 14.5 \text{ percent per year}$ .

### **Method 1.2**

Assume, alternatively, that the debt of payphone companies is as risky as that of the average bond having C ratings. Bonds with C ratings more closely approximate the risk associated with payphone companies, although they still likely understate the debt cost of these companies. As above in Method 1.1, we again assume, conservatively, that the equity of payphone companies is equally as risky as that of the S&P 500. Using a debt-equity ratio of 1, the cost of capital for payphone companies is  $(0.5) (15.19 \text{ percent per year}) + (0.5) (16.74 \text{ to } 16.99 \text{ percent per year}) = 16.0 \text{ to } 16.1 \text{ percent per year}$ .

### **Method 2.1**

Billingsly estimates that the forward-looking cost of debt for ILECs is 6.35 percent per year. At the same time, the average return on debt having a rating of B1 or lower is 12.07 percent per year. It follows that the risk premium for the latter bonds is 5.72 percentage points per year higher than the risk premium on ILEC debt.

Many payphone enterprises do not have positive earnings; so the expected returns to equity are entirely speculative. Consequently, the risk premium on equity is probably higher than the risk premium on debt for payphone enterprises (*i.e.*, greater than 5.72 percentage points per year). If we conservatively assume the same risk premium for

equity, our estimate of the cost of capital for companies with bonds B1 or lower is 5.72 percent per year higher than the cost of capital for ILECs. If the cost of capital for ILECs is 11.25 percent per year, the equivalent cost of capital for companies with bonds rated B1 or lower is 16.97 percent per year.

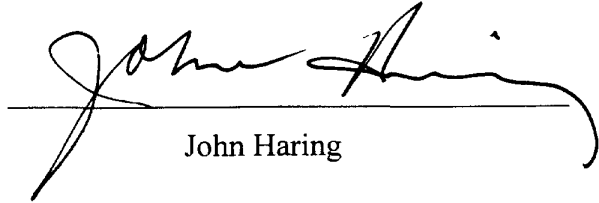
## **Method 2.2**

Let us apply Method 2.1, but using the returns of bonds having C ratings — probably a closer approximation to the typical payphone enterprise. The difference in risk premia between these bonds and forward-looking ILEC debt is 8.84 percentage points per year. If we conservatively assume that the risk differential for equity is the same as for debt, it follows that the cost of capital of these companies is 8.84 percentage points higher than the cost of capital of ILECs. If the cost of capital of ILECs is 11.25 percent per year, the cost of capital of these companies is 20.09 percent per year.

## **Conclusions**

Payphone enterprises are far more risky than ILECs. Compensating payphone enterprises based on the cost of capital of ILECs would not cover the costs of providing payphones and would lead to inefficiently low supply. We have developed lower-bound estimates of the cost of capital of payphone enterprises. These lower-bound estimates range between 14.5 and 20.09 percent per year. The actual cost of capital of payphone enterprises may exceed all these lower-bound estimates.

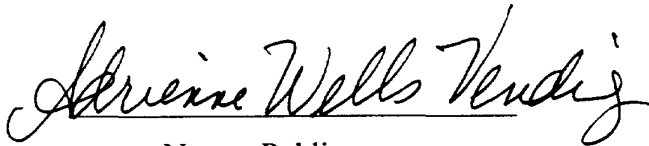
I hereby swear and affirm that the statements contained in the attached report are true and correct to the best of my knowledge and belief.

  
John Haring

County of Montgomery

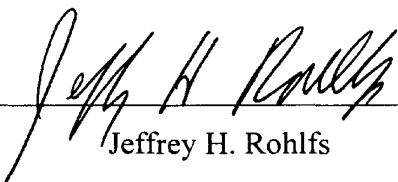
State of Maryland

Subscribed and sworn to before me this 14<sup>th</sup> day of May, 1999.

  
Notary Public

My commission expires: \_\_\_\_\_  
Adrienne Wells Vendig, Notary Public  
Montgomery County  
State of Maryland  
My Commission Expires Sept. 1, 2002

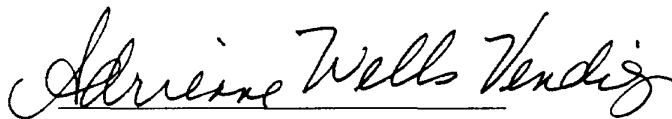
I hereby swear and affirm that the statements contained in the attached report are true and correct to the best of my knowledge and belief.

  
\_\_\_\_\_  
Jeffrey H. Rohlfs

County of Montgomery

State of Maryland

Subscribed and sworn to before me this 14<sup>th</sup> day of May, 1999.

  
\_\_\_\_\_  
Adrienne Wells Vendig

Notary Public

My commission expires: \_\_\_\_\_  
Adrienne Wells Vendig, Notary Public  
Montgomery County  
State of Maryland  
My Commission Expires Sept. 1, 2002

**Table 1**  
**U.S. Corporate Bond Issues with B or Lower Ratings**  
**(Source: Moody's Corporate Bond Record, April 1999)**

Issue	Moody's Rating	YTM	Amount Outstanding (\$ M)
AMF Bowling Worldwide, Inc sr nt ser. B 10.875 2006	B3 r	9.77%	\$ 250
AMF Bowling Worldwide, Inc sr sub disc nts ser B 12.25 2006	B3 r	17.34%	\$ 181
Amem Architectural Products sr nt ser B 11.75.2007	Caa1	15.29%	\$ 125
AMRESKO, Inc. sr sub nt 10.00.2003	Caa3	15.09%	\$ 57
AMRESKO, Inc. sr sub nt ser A 10.00 2004	Caa3	15.09%	\$ 193
AMRESKO, Inc. sr sub nt ser A 9.875 2005	Caa3	14.96%	\$ 330
Amtran, Inc. sr nt 10.50 2004	B2	9.75%	\$ 100
Anacomp, Inc. sr sub nt 10.875 2004	B3 r	9.84%	\$ 200
Anacomp, Inc. sr sub nt ser C 10.875 2004	B3 r	9.84%	\$ 135
Anchor Advanced Products, Inc. sr nt ser B 11.75 2004	B1	10.66%	\$ 100
Anchor Glass Container Corp. sr nt 9.875 2008	B3 r	11.31%	\$ 50
AnnTaylor, Inc. sub nt 8.75 2000	B2	6.95%	\$ 110
BE Aerospace, Inc. sr sub nt 8.00 2008	B1	8.12%	\$ 250
Beal Financial Corp. sr nt 12.75 2000	B2	11.25%	\$ 50
Benton Oil & Gas Co. sr nt 11.625 2003	B3 r	16.72%	\$ 125
Benton Oil & Gas Co. sr nt 9.375 2007	B3 r	14.46%	\$ 105
Berry Plastics Corp. gtd sr sub nt 12.25 2004	B3 r	10.80%	\$ 100
Big Flower Press Holdings Inc. sr sub nt 8.875 2007	B2	8.62%	\$ 250
Big Flower Press Holdings Inc. sr sub nt 8.875 2007	B2	8.62%	\$ 100
Big V Supermarkets Inc. sr sub nt ser B 11.00 2004	B3 r	10.15%	\$ 80
First Union Real Est Eq & Mfg sr nt 8.875 2003	B1	9.25%	\$ 100
First Wave Marine Inc sr nt 11.00 2008	B3 r	12.11%	\$ 90
Firstfed Financial Corp. (DE) nt 11.75 2004	B2	11.13%	\$ 50
Fisher Scientific Intl. Inc. sr nt 7.125 2005	B1	7.98%	\$ 15
Fisher Scientific Intl. Inc. sr sub nt 9.00 2008	B3 r	9.00%	\$ 400
Fisher Scientific Intl. Inc. sr sub nt 9.00 2008	B3 r	8.88%	\$ 200
Flagstar Corp. sr sub deb 11.375 2003	Caa2	11.00%	\$ 125
Flextronics International Ltd sr sub nt 8.75 2007	B1	8.33%	\$ 150
Flores & Rucks Inc. sr sub nt 9.75 2006	B1	9.33%	\$ 160
Florida Coast Paper Co L.L.C. 1st mtg nt ser B 12.75 2003	Ca	17.84%	\$ 165
Foamex L.P./Foamex Capital gtd sr sub nt 13.25 2005	B3 r	10.65%	\$ 98
Foamex L.P./Foamex Capital gtd sr sub nt 9.875 2005	B3 r	10.78%	\$ 15
Forcenergy Inc. sr sub nt 9.50 2006	Caa2 r	14.59%	\$ 175
Forcenergy Inc. sr sub nt ser B 8.50 2007	Caa2	13.59%	\$ 200
Guangdong Enterprises Holding nt 8.875 2007	Caa1	13.96%	\$ 500
Guangdong International Trust bd 8.75 2016	Ca	13.84%	\$ 200
GUESS?, Inc. sr sub nt ser B 9.50 2003	B1	9.50%	\$ 128
Gulf States Steel Acquisition 1st mfg nt ser B 13.50 2003	Caa3	18.59%	\$ 190
Halter Marine Group Inc. cv sub nt 4.50 2004	B2	9.59%	\$ 160
Hammons (John Q.) Hotels L.P. 1st mfg nt 8.875 2004	B2	10.71%	\$ 300
Hartmarx Corp. sr sub nt 10.875 2002	B3 r	9.69%	\$ 100
Harveys Casino Resorts gtd sr sub nt 10.625 2006	B2	9.53%	\$ 150
Hayes Lemmerz Intl Inc sr sub nt 8.25 2008	B2	8.25%	\$ 250
Hayes Wheels Intl gtd sr sub nt 9.125 2007	B2	8.33%	\$ 150
Haynes International, Inc. sr nt 11.63 2004	B3 r	16.72%	\$ 140
HAD Parts Systems Inc sr sub nt 12.00 2005	Caa1	12.87%	\$ 100
Granite Broadcasting Corp. sr sub nt 9.375 2005	B3 r	9.15%	\$ 110
Grant Geophysical Inc. (New) gtd sr nt 9.75 2008	B3 r	14.84%	\$ 100
Gray Communications Systems gtd sr sub nt 10.625 2006	B3 r	9.48%	\$ 160
Great Lakes Dredge & Dock Cor gtd sr sub nt 11.25 2008	B3 r	10.25%	\$ 115
Group 1 Automotive, Inc. ftd sr sub nt 10.875 2009	B2	10.98%	\$ 100
Group Maintenance Amer Corp. ftd sr sub nt 9.75 2009	B2	9.36%	\$ 130
Grove Holdings LLC/Grove Hldg sr disc deb 11.625 2009	Caa1 r	16.72%	\$ 88
Grove Worldwide LLC Grove Cap sr sub nt 9.25 2008	B3 r	12.76%	\$ 225
Grupo Industrial Durango S.A. nt 12.00 2001	B2	12.83%	\$ 150
Grupo Industrial Durango S.A. nt 12.625 2003	B2	13.68%	\$ 250
GS Technologies Operating Co. gtd sr nt 12.00 2004	B2	17.09%	\$ 125
GS Technologies Operating Co. gtd sr nt 12.25 2005	B2	17.34%	\$ 125
GSI Group Inc. sr sub nt 10.25 2007	B2	15.34%	\$ 100
Leiner Health Products, Inc. sr sub nt 9.625 2007	B3 r	9.49%	\$ 85

**Table 1**  
**U.S. Corporate Bond Issues with B or Lower Ratings**  
**(Source: Moody's Corporate Bond Record, April 1999)**

<b>Issue</b>	<b>Moody's Rating</b>	<b>YTM</b>	<b>Amount Outstanding (\$ M)</b>
Lenfest Communications Inc. sr sub nt 10.50 2006	B2	7.74%	\$ 300
Lenfest Communications Inc. sr sub nt 8.25 2008	B2	7.69%	\$ 150
Leslie's Poolmart sr nt 10.375 2004	B2	9.36%	\$ 90
Level 3 Communications, Inc. sr disc nt 10.50 2008	B3 r	15.59%	\$ 834
Levitz Furniture Corp. sr sub nt 9.625 2003	Ca	14.71%	\$ 100
Liberty Group Operating Inc gtd sr sub nt 9.375 2008	B3 r	9.38%	\$ 180
Livent Inc. (Canada) gtd sr nt 9.375 2004	Ca	14.46%	\$ 125
Lodestar Holdings Inc sr nt 11.50 2005	Caa2 r	15.77%	\$ 150
LodgeNet Entertainment Corp. sr nt 10.25 2006	B1	9.88%	\$ 150
Loehmann's Inc. sr nt 11.875 2003	B3 r	16.97%	\$ 100
Loewen Group International In gtd sr nt 8.25 2003	B2	13.34%	\$ 125
Loewen Group International gtd sr nt ser 37.50 2001	Caa3	12.59%	\$ 225
Loewen Group International gtd sr nt ser 37.75 2001	Caa3	12.84%	\$ 125
Loewen Group International gtd sr nt ser 48.25 2003	Caa3	13.34%	\$ 225
Loewen Group International gtd sr nt ser 67.20 2003	Caa3 r	12.29%	\$ 200
Lomak Petroleum, Inc. sr sub nt 8.75 2007	B2	13.55%	\$ 125
Loral Space & Communications sr nt 9.50 2006	B1	10.69%	\$ 350
Luigino's Inc sr sub nt 10.00 2006	B3 r	10.00%	\$ 100
Mosler Inc. gtd sr nt 11.00 2003	Caa3	16.09%	\$ 115
Motels of America, Inc. sr sub nt ser B 12.00 2004	B3 r	16.60%	\$ 80
Mrs. Fields Orig Cookies Inc sr nt ser C 10.125 2004	B2	10.93%	\$ 40
MTL, Inc. gtd sr sub nt 10.00 2006	B3 r	10.39%	\$ 100
Musicland Group Inc. gtd sr sub nt 9.00 2003	B3 r	8.72%	\$ 110
Musicland Group Inc. gtd sr sub nt 9.875 2008	B3 r	9.66%	\$ 150
Muzak LLC gtd sr sub nt 9.875 2009	B3 r	9.40%	\$ 115
MVE, Inc. sr sec deb 12.50 2002	B3 r	9.75%	\$ 112
NABI, Inc. cv sub nt 6.50 2003	Caa2	11.59%	\$ 81
Nash-Finch Co. sr sub nt 8.50 2008	B1	10.44%	\$ 165
Southern Pacific Funding Corp gtd sr nt 11.50 2004	Caa3	16.59%	\$ 100
Southern Pacific Rail Corp. sr nt 9.375 2005	B1	8.52%	\$ 375
Southland Corp. sr sub deb ser A 4.50 2004	B1 r	8.95%	\$ 206
Southland Corp. sr sub deb ser B 4.00 2004	B1 r	9.09%	\$ 19
Texli Industries, Inc. sr sub deb 8.75 1999	Ca	100.00%	\$ 35
Thermadyne Holdings Corp. sr nt 10.25 2002	B3 r	8.73%	\$ 129
Thermadyne Holdings Corp. sr sub nt 10.75 2003	B3 r	11.01%	\$ 179
TM Group Holdings Plc global bd 11.00 2008	B3 r	10.91%	\$ 175
<b>Total Amounts Outstanding</b>			<b>\$ 15,003</b>
<b>Weighted Average YTM &amp; Average Amt Outstanding</b>		<b>12.07%</b>	<b>\$ 156</b>
<b>Sample Size</b>	<b>96</b>		



**Table 2**  
**U.S. Corporate Bond Issues with C Ratings**  
(Source: *Moody's Corporate Bond Record*, April 1999)

Issue	Moody's Rating	YTM	Amount Outstanding (\$ M)
Amem Architectural Products sr nt ser B 11.75.2007	Caa1	15.29%	\$ 125
AMRESCO, Inc. sr sub nt 10.00.2003	Caa3	15.09%	\$ 57
AMRESCO, Inc. sr sub nt ser A 10.00 2004	Caa3	15.09%	\$ 193
AMRESCO, Inc. sr sub nt ser A 9.875 2005	Caa3	14.96%	\$ 330
Flagstar Corp. sr sub deb 11.375 2003	Caa2	11.00%	\$ 125
Florida Coast Paper Co L.L.C. 1st mtg nt ser B 12.75 2003	Ca	17.84%	\$ 165
Forcenergy Inc. sr sub nt 9.50 2006	Caa2 r	14.59%	\$ 175
Forcenergy Inc. sr sub nt ser B 8.50 2007	Caa2	13.59%	\$ 200
Guangdong Enterprises Holding nt 8.875 2007	Caa1	13.96%	\$ 500
Guangdong International Trust bd 8.75 2016	Ca	13.84%	\$ 200
Gulf States Steel Acquisition 1st mfg nt ser B 13.50 2003	Caa3	18.59%	\$ 190
HAD Parts Systems Inc sr sub nt 12.00 2005	Caa1	12.87%	\$ 100
Grove Holdings LLC/Grove Hldg sr disc deb 11.625 2009	Caa1 r	16.72%	\$ 88
Levitiz Furniture Corp. sr sub nt 9.625 2003	Ca	14.71%	\$ 100
Livent Inc. (Canada) gtd sr nt 9.375 2004	Ca	14.46%	\$ 125
Lodestar Holdings Inc sr nt 11.50 2005	Caa2 r	15.77%	\$ 150
Loewen Group International gtd sr nt ser 37.50 2001	Caa3	12.59%	\$ 225
Loewen Group International gtd sr nt ser 37.75 2001	Caa3	12.84%	\$ 125
Loewen Group International gtd sr nt ser 48.25 2003	Caa3	13.34%	\$ 225
Loewen Group International gtd sr nt ser 67.20 2003	Caa3 r	12.29%	\$ 200
Mosler Inc. gtd sr nt 11.00 2003	Caa3	16.09%	\$ 115
NABI, Inc. cv sub nt 6.50 2003	Caa2	11.59%	\$ 81
Southern Pacific Funding Corp gtd sr nt 11.50 2004	Caa3	16.59%	\$ 100
Texli Industries, Inc. sr sub deb 8.75 1999	Ca	100.00%	\$ 35
<b>Total Amounts Outstanding</b>			<b>\$ 3,927</b>
<b>Weighted Average YTM &amp; Average Amt Outstanding</b>		<b>15.19%</b>	<b>\$ 164</b>
<b>Sample Size</b>	<b>24</b>		

## **CERTIFICATE OF SERVICE**

I, hereby certify that on May 19, 1999, a true and complete copy of the foregoing Motion of the Colorado Payphone Association for Leave to Supplement Petition for Partial Reconsideration was sent by first class mail, postage prepaid, to the following parties:

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